

AGENDA



Thursday, March 6, 2008

**Public Hearings and Possible Actions
RECOMMENDATION FOR COUNCIL ACTION****Item No. 75**

Subject: Conduct a Public Hearing and consider the propriety and reasonableness of natural gas rates pursuant to the settlement agreement between Atmos Energy Corporation, Mid-Tex Division, and the Atmos Texas Municipalities and consider a resolution approving the settlement agreement between Atmos Energy Corporation, Mid-Tex Division, and the Atmos Texas Municipalities, relating to implementation of natural gas rates.

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Prior Council Action: 10/18/07 - Council denied ATMOS Statement of Intent for rate increase.
2/26/08 - Council approved resolution to issue show cause order to ATMOS.

Under the Gas Utilities Regulatory Act (Chapters 101 through 105 of the Texas Utilities Code) ("GURA"), the City of Austin has original jurisdiction over gas utility rates set for customers within its city limits.

On September 20, 2007, Atmos Energy Corporation, Mid-Tex Division ("Atmos"), filed a Statement of Intent to increase its system-wide rates. The City denied Atmos' Statement of Intent and subsequently joined with other Central Texas municipalities served by Atmos (collectively "Atmos Texas Municipalities" or "ATM") in contesting Atmos' appeal of ATM's denials to the Railroad Commission.

ATM has negotiated with Atmos to approach a mutually agreeable rate structure to substitute for Atmos' requested rates proposed in its Statement of Intent. The negotiated settlement between ATM and Atmos, including an agreement to dismiss the docket at the Railroad Commission, is pending, subject to each ATM city's approval of the settlement agreement. To procedurally reassert its jurisdictional control over the proposed rates, the City, pursuant to GURA, issued a show cause order to Atmos.

The City must conduct a public hearing prior to taking action on the settlement agreement.

Key terms of agreement are as follows:

*Reduction in original rate request.

Atmos originally requested a \$51.9 million rate increase. The settlement provides for a \$10 million increase.

*Customer charge reduction and volumetric increase.

On October 1, 2008, the residential customer charge is to be reduced from \$10.69 to \$7.00 and the commercial customer charge is to be reduced from \$20.28 to \$13.50. The resulting difference in revenue will be factored into an increase in the volumetric rates. In general, low use customers and low use small businesses will benefit from the customer charge reductions. The changes promote conservation.

*Conservation Program.

A conservation program funded at \$2 million in the initial year provides assistance to low income customers and those over the age of 65 to obtain and install energy efficiency materials.

*Annual Rate Review Mechanism (RRM).

Atmos has been making filings annually under its authority in GURA's Gas Reliability Infrastructure Program ("GRIP"). The agreement institutes a new three-year trial rate adjustment mechanism in place of GRIP. The RRM will permit participation by ATM to review each expenditure. This was not possible under the GRIP filings. Under GRIP, cities did not get to review expenditures for reasonableness or prudence without having to litigate the issue before the Railroad Commission.

* Franchise Fee.

The Settlement also provides that each ATM city may collect franchise compensation up to 5% of gross revenues. This will be factored into the City's ongoing franchise agreement renewal negotiations with Atmos.

Staff recommends that the City Council approve the settlement agreement between Atmos Energy Corporation, Mid-Tex Division, and the Atmos Texas Municipalities.